LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 8002 **DATE PREPARED:** May 3, 2001
BILL NUMBER: HB 1001 **BILL AMENDED:** Apr 29, 2001

SUBJECT: State Budget.

FISCAL ANALYST: Alan Gossard; Kathy Norris
PHONE NUMBER: 233-3546; 234-1360

FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: (CCR Amended) ***Biennial Budget:*** This bill appropriates state money for the biennium beginning July 1, 2001, and ending June 30, 2003. It also authorizes certain capital projects.

Tobacco Settlement Provisions: This bill provides that the maximum amount of expenditures, transfers, or distributions that may be made from the Indiana Tobacco Master Settlement Agreement Fund during a state fiscal year is equal to 60% of the amount of money received or to be received by the state under the Master Settlement Agreement during that state fiscal year, plus any amounts that were available for expenditure, transfer, or distribution during preceding state fiscal years but that were not expended, transferred, or distributed.

The bill also establishes certain existing trust funds as accounts within the Indiana Tobacco Master Settlement Agreement Fund. It also establishes the Regional Health Care Construction Account within the Indiana Tobacco Master Settlement Agreement Fund. This account is established for the purpose of providing funding for state psychiatric hospitals and developmental centers, regional health centers, or other health facilities designed to provide crisis treatment, rehabilitation, or intervention for adults or children with mental illness, developmental disabilities, addictions, or other medical or rehabilitative needs. $14,000,000 shall be transferred during state FY 2002 and FY 2003 from the Indiana Tobacco Master Settlement Fund to the account.

The bill also changes the purposes for which the Tobacco Farmers and Rural Community Impact Fund may be used, and specifies that the fund is to be administered by the Commissioner of Agriculture (instead of the Commissioner of Agriculture and the Department of Commerce). The bill establishes an advisory committee to make recommendations concerning distribution of money from the fund and provides that the Commissioner of Agriculture may not approve an expenditure from the fund unless that expenditure has been recommended by the advisory board.

Any unspent balances in the 2000 appropriation from the Indiana Tobacco Master Settlement Agreement Fund for capital costs for community mental health centers do not revert until 2004.

School Funding and Education Provisions: For purposes of the school funding provisions, the bill does the following: (1) changes the dollar amounts used in the calculation of a school corporation's target revenue per ADM; (2) provides that the minimum guaranteed amount of a school corporation's target revenue per ADM in 2002 and 2003 is equal to the previous year revenue increased by 2%, then divided by the current year adjusted ADM; and (3) amends the provisions concerning calculation of target general fund property tax rates.

The bill includes a new index based on a school corporation's at-risk index, the percentage of the school corporation's students who are eligible for free lunches, and the percentage of the school corporation's students who are classified as having limited proficiency in English. It also increases the amounts of the special education grants for pupils with severe disabilities, pupils with mild and moderate disabilities, and pupils in homebound programs in 2002 and 2003. It also increases the amounts of the At-Risk Program Grant in 2002 and 2003.

The bill increases the amounts of the Honors Diploma Grant in 2002 and 2003. The bill also adjusts the calendar year caps for school funding distributions and provides that a school corporation's funding under the Primetime Program may not increase by more than 7.5% over the amount received by the school corporation under the program in the preceding year. The bill amends a provision in the Primetime distribution formula to allow schools which did not participate in the Primetime Program in 2000 to receive a distribution in 2001 and in following years. The bill increases the staff cost amount used in calculating Primetime distributions.

For purposes of the vocational education formula that becomes effective in 2002, the bill requires the Department of Workforce Development to provide the Department of Education with a report listing whether the Indiana average wage level for each generally recognized labor category is a high wage, a moderate wage, or a less than moderate wage. The bill uses this wage report (along with the reports categorizing vocational education programs by employment demand) in determining the amount of the vocational education grants. The bill increases vocational education funding per pupil from $230 to $250 for pupils enrolled in programs not covered by the employment demand categories. It also eliminates the vocational education funding component for pupils receiving a Certificate of Achievement. The bill also provides vocational education funding of $150 per pupil for pupils participating in a vocational education program in which pupils from multiple schools are served at a common location. In 2002 and 2003, a school corporation is guaranteed funding equal to at least 85% of the vocational education funding received by the school corporation in 2001.

This bill also provides that a child must be at least five years of age on July 1 to officially enroll for the particular school year in a kindergarten program offered by a school corporation. (Current law requires that a child must be at least five years of age on June 1 to officially enroll in a kindergarten program.)

The bill also makes certain changes to the Alternative Education Grant Program and repeals the Beginning Teacher Internship Program.

The bill permits certain school corporations facing budgetary shortfalls because of a taxpayer's delinquency to apply for a distribution from the Property Tax Replacement Fund.

Bonding Authority: The bill authorizes the trustees of Purdue University to issue bonds for the purpose of constructing, remodeling, renovating, furnishing, and equipping the Recreation Gymnasium project at the West Lafayette campus. The project is not eligible for fee replacement. The bill also authorizes Indiana University to construct a women's field hockey facility on the Bloomington campus at a cost of $1,000,000 to be funded from dedicated student fees.

Rainy Day Fund: This bill provides that after all statutory transfers are made from the Counter-cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund), the Treasurer of State shall in June 2002 and June 2003 transfer any balance in the fund in excess of the June 30, 2001 balance to the state General Fund. If the Budget Director makes a determination at any time during either fiscal year of the biennium that the executive branch of state government cannot meet its statutory obligations due to insufficient funds in the state General Fund, the Budget Agency, with the approval of the Governor and after review by the Budget Committee, may transfer from the Rainy Day Fund to the state General Fund an amount necessary to maintain a positive balance in the state General Fund.

This bill appropriates money from the Build Indiana Fund to the Property Tax Replacement Fund.

Personal Property Tax Provisions: For tax years beginning after 2002, the bill provides a credit against state tax liability for property taxes paid on business personal property. The bill specifies that the credit is equal to the amount of property taxes paid on business personal property that has an assessed valuation of not more than $37,500. It also specifies that a utility company may not claim the credit. The bill repeals the existing Personal Property Tax Reduction Credit in 2002.

The bill also provides that mobile homes not assessed as real property and manufactured homes not assessed as real property are eligible for certain property tax deductions and for the Homestead Credit. The sum of all property tax deductions provided to a mobile home that is not assessed as real property or to a manufactured home that is not assessed as real property may not exceed one-half of the assessed value of the mobile home or manufactured home.

The bill also specifies the schedule that will be used (in place of the statutory schedule) for property tax replacement credit distribution in 2001.

Other Tax Provisions: The bill provides that property tax collections from indefinite-situs distributable property of railroad car companies that were collected after June 30, 1999, and before January 1, 2001, and were credited to the Commuter Rail Service Fund and distributed to a commuter transportation district may be retained by the commuter transportation district and used by the commuter transportation district for any legal purpose.

The bill also provides that the homestead credit percentage shall be 10% in 2002 and 2003.

The bill provides a five-year credit against state tax liability for a percentage of property taxes paid by rerefined lubrication oil facilities. The Department of Commerce is to determine if the taxpayer is entitled to the credit.

This bill also increases the amount that taxing units are charged by the State Board of Accounts for examinations or investigations.

It also extends the Earned Income Tax Credit through December 31, 2003.

The bill provides a credit against a taxpayer's state tax liability for certain qualified capital investments made in Shelby County. The amount of the credit is equal to 14% of the amount of the qualified investment. The Department of Commerce is to certify the investments as being eligible for the credit. If a taxpayer receives a credit and does not make the qualified investment for which the credit was granted within the time required, the Department of Commerce may require the taxpayer to repay the additional amount of state tax liability that would have been paid by the taxpayer if the credit had not been granted, plus interest.

Loan Guarantee: This bill authorizes the Indiana Development Finance Authority (IDFA) to make a loan guarantee for a leading Indiana business jointly with the Board for Depositories in an amount not to exceed $35,000,000. The bill defines the term "leading Indiana business" and specifies that the loan guarantee must accomplish the purposes of IDFA by enabling the Indiana business to carry out an industrial development project that will satisfy certain conditions. The IDFA's share of liability on any joint guarantee with the Board for Depositories shall not exceed $2,000,000. The loan guarantee must provide that in the event of a valid claim of loss by the lender, the lessor, or the issuer of the loan, the amount of the loss (up to $2,000,000) shall first be paid by the Industrial Development Project Guaranty Fund, and only the remainder of the loss, if any, shall to the extent guaranteed be paid by the Public Deposit Insurance Fund. The term of the guarantee may not exceed 10 years.

The bill allows the cities of Evansville, Ft. Wayne, and South Bend to create Sales Tax Increment Financing districts.

Medicaid and TANF Provisions: This bill also provides that the Office of Medicaid Policy and Planning (OMPP), after review by the Budget Agency, may implement certain programs. OMPP is to: (1) reduce reimbursement rates for over-the-counter drugs; (2) implement a Maximum Allowable Cost schedule for off-patent drugs; (3) develop a plan for contracting with a vendor to provide a Pharmaceutical Benefit Management Program; (4) implement an information strategy to high-volume prescribers; (5) phase in case management for aged, blind, and disabled Medicaid recipients; (6) contract with an outside vendor to implement disease management and case management programs; (7) provide necessary information to the Medicaid Drug Utilization Review (DUR) Board; and (8) cooperate with the state Attorney General in conducting an audit of the Medicaid Prescription Drug Program.

The bill requires the use of generic drugs in the Children's Health Insurance Program (CHIP). The bill requires the DUR Board to meet monthly and allows the DUR Board to hire support staff. The bill also provides that community residential facilities for the developmentally disabled and intermediate care facilities for the mentally retarded that are not operated by the state may be assessed an amount not to exceed 10% of the annual gross residential services revenues.

This bill also provides that the Division of Family and Children shall apply all qualifying expenditures from each county's family and children's fund toward Indiana's maintenance of effort under the federal TANF program.

Pension Provisions: The bill provides that a TRF member who before July 1, 1995, served in a position covered by the fund and who is hired by another school corporation or rehired by a prior employer shall remain a member of the Pre-1996 Account unless the member was hired or rehired before July 1, 2001. The TRF Board is to adjust the employer contribution rate for TRF to take into account any actuarial savings resulting from this change.

Underground Petroleum Storage Tank Excess Liability Trust Fund: The bill transfers $9,000,000 from the Underground Petroleum Storage Tank Excess Liability Trust Fund to the Environmental Remediation Revolving Loan Fund as follows: (1) $4,500,000 on July 1, 2001; and (2) $4,500,000 on July 1, 2002. It also transfers $500,000 each year of the biennium from the Underground Petroleum Storage Tank Excess Liability Trust Fund to the Oil and Gas Environmental Fund for plugging abandoned oil wells.

Penalty Provisions: This bill also provides for the following penalty provisions: (1) Increases the penalty for operating while intoxicated when the offender has a previous unrelated conviction for a violation that occurred before July 1, 2001. (2) Increases the maximum time during which certain drug offenders may be placed in a community transition program. The bill also modifies an Indiana court of appeals decision to allow a court to place an offender in a community corrections program more than 365 days after the offender is initially sentenced without the consent of the prosecuting attorney. (3) Eliminates a mathematical error in the definition of "minimum sentence" by changing the definition of "minimum sentence" for murder from 30 years to 45 years and by changing the definition of "minimum sentence" for a Class D felony from one year to one-half year. (4) Provides that a person may not be sentenced as a habitual offender for certain drug offenses. The bill allows a court to reduce the minimum term of imprisonment for a habitual substance offender if the offender was convicted of certain drug offenses.

Bureau of Motor Vehicle (BMV) Provisions: This bill provides for an increase of $0.50 in service charges for various BMV transactions.

Substance Abuse and Chemical Dependency Parity: The bill includes services for substance abuse and chemical dependency, when the services are required in the treatment of a mental illness, within the definition of "coverage of services for mental illness" for purposes of the law prohibiting the application of treatment limitations or financial requirements to coverage of services for mental illness under state employee health benefit plans if similar limitations or requirements do not apply to the coverage of services for other medical or surgical conditions.

State Veterans' Cemetery Fund: The bill specifies that the State Veterans' Cemetery Fund is a dedicated fund and expands its sources of funding. The balance of the fund at the end of a fiscal year does not revert to the state General Fund, and continuously appropriates the earnings on the fund for the operation of the State Veterans' Cemetery. The principal of the fund may be expended only for specific purposes following an appropriation by the General Assembly. Any unspent appropriations that were made in the 1999 budget act for the operation of the cemetery are to be transferred to the fund.

Local Provisions: The bill appropriates $150,000 from the Build Indiana Fund to the Budget Agency for the Jennings County Economic Development Corporation to conduct a study on employment opportunities and the placement of a regional health care facility in Jennings County.

The bill also provides that the State Board of Tax Commissioners shall grant approval of an excessive levy to Jay County School Corporation, and that such relief shall be granted as an advance of state funds to be paid back to the State Treasurer in 120 payments.

This bill also authorizes Randolph County to impose an additional 0.25% County Economic Development Income Tax (CEDIT) rate for the purposes of financing, constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions. The additional rate may also be used for the repayment of bonds issued, or leases entered into, for those purposes. The county's CEDIT rate plus the county's County Adjusted Gross Income Tax (CAGIT) rate may not exceed 1.5% if the county has imposed the additional CEDIT rate authorized by this bill. The bill authorizes the county to adopt an ordinance that makes the CEDIT rate increase effective January 1, 2002.

The bill permits a qualified taxing unit facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Rainy Day Fund. The bill also permits a county auditor to keep separate on the tax duplicate the assessed value of property that is part of a bankruptcy estate and constitutes 9% of the assessed value of a taxing unit.

This bill expands the existing Marion County PILOTS program to include Dearborn County.

Miscellaneous Provisions: The bill provides that the Speaker of the House of Representatives and the President Pro Tempore of the Senate shall each appoint a representative from a high technology business to the Indiana Twenty-First Century Research and Technology Fund Board.

The bill allocates 1% of the state's private activity bond volume cap to the Indiana Secondary Market for Education Loans, incorporated (ISMEL).

The bill adds regional health facilities to the list of facilities covered by the State Office Building Commission provisions.

It also provides that the Indiana War Memorials Commission may hire employees only with the approval of the Budget Agency.

The bill provides that the Budget Director or the Budget Director's designee is a member of the Recreational Development Commission.

This bill also establishes the State Museum Development Fund for the purpose of promoting interest in and use of the Indiana State Museum. The fund consists of revenue generated by exhibit fees, concessions, donations, grants, and other miscellaneous revenue.

The bill also extends the Civil War Flags Commission until July 1, 2006.

It also reconciles conflicts between statutes enacted by the 1999 General Assembly.

The bill provides that the Department of Workforce Development shall provide staff and administrative support to the Indiana Commission for Women.

The bill also delays the expiration of FSSA until July 1, 2002.

The bill also provides that the State Health Commissioner and the Department of Education shall review and approve the admission of children at the Silvercrest Children's Development Center.

It also requires the Department of Transportation to establish a pilot project for the development of a corridor preservation program along U.S. 31.

Effective Date: January 1, 2001 (retroactive); March 1, 2001 (retroactive); Upon Passage; June 30, 2001; July 1, 2001; December 31, 2001; January 1, 2002; January 1 , 2003.

Explanation of State Expenditures: (Revised) ***Biennial Budget*** *[SECTIONS 1-47]* - This bill establishes the state budget appropriations for FY 2002 and FY 2003. Total General Fund and Property Tax Replacement Fund appropriations are $10,209.9 M for FY 2002 (a 2.4% increase over FY 2001) and $10,491.8 M for FY 2003 (a 2.8% increase over FY 2002).

Of this amount, total operating appropriations are $10,006.2 M for FY 2002 (a 3.1% increase over FY 2001) and $10,288.1 M for FY 2003 (a 2.8% increase over FY 2002). Appropriations for capital projects represent $407.43 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

General Fund and Property Tax Replacement Fund: FY 2002-FY 2003.			
Functional Category	**FY 2002**	**FY 2003**	**% Change**
General Government	325,527,975	333,599,489	2.5%
Corrections	565,904,304	569,029,425	0.6%
Other Public Safety	112,420,418	112,378,429	0.0%
Conservation and Environment	96,247,979	96,326,202	0.1%
Economic Development	71,810,742	72,189,117	0.5%
Transportation	1,104,363	1,136,429	2.9%
Mental Health	238,197,346	242,197,346	1.7%
Public Health	119,751,582	120,951,582	1.0%
Medicaid	1,170,950,706	1,248,800,706	6.6%
Family and Children	260,194,092	258,194,092	-0.8%
Social Services and Veterans	242,769,671	249,052,562	2.6%
Higher Education	1,410,881,971	1,440,089,536	2.1%
Education Administration	56,484,699	55,827,999	-1.2%
Tuition Support - Gen. Fund	1,951,887,850	2,009,587,850	3.0%
Tuition Support - PTR Funds	1,465,365,150	1,523,065,150	3.9%
Social Security - Teachers	2,403,792	2,403,792	0.0%
Teachers Retirement	435,400,000	472,000,000	8.4%
Other Local Schools	260,027,890	284,183,802	9.3%
Other Education	12,208,132	12,562,587	2.9%
PTR and Homestead Credits	1,179,830,876	1,157,017,761	-1.9%
Distributions - Gen. Fund	26,850,488	27,521,749	2.5%
Subtotal - Operating	10,006,220,026	10,288,115,605	2.8%
Higher Education Construction	36,366,183	36,366,183	
Other Construction	167,348,467	167,348,467	
Subtotal - Capital Projects	203,714,650	203,714,650	
Grand Total	10,209,934,676	10,491,830,255	2.8%

* Appropriations "for the biennium" are apportioned 50% for each fiscal year.
** The appropriations in this table represent only those appropriations provided in HEA 1001-2001.

Appropriations from dedicated and federal funds for the biennium and retroactive appropriations for FY 2001 are presented in the following table.

Dedicated, Federal, and Retroactive Appropriations: FY 2002-FY 2003.			
Functional Category	**FY 2002**	**FY 2003**	**% Change**
BIF & Lottery/Gaming Surplus	155,104,334	155,104,334	
BIF Transfer to PTR Fund	200,000,000	175,000,000	
Other Dedicated - Operating	1,136,416,046	1,171,531,041	3.1%
Other Dedicated - Construction	27,396,712	27,396,712	0.0%
Tobacco Settlement	107,755,462	146,455,462	35.9%
Federal Funds	656,282,515	667,982,515	1.8%
Retroactive Appropriations *	68,790,000		
Total Dedicated	2,351,745,069	2,343,470,064	
* Retroactive appropriations are for FY 2001.			

Tobacco Settlement Provisions: This bill provides for an increase in the amount of Indiana Tobacco Master Settlement Fund revenue that may be made available for expenditure, transfer, or distribution each year. The bill allows amounts that were available for expenditure, transfer, or distribution in previous years but that were not expended to be available for expenditure in the next year. Using the existing Tobacco Master Settlement Agreement revenue estimates, this would allow an additional $36.8 M in tobacco funds to be available for appropriation. (The current statute requires these funds to be transferred to the trust portion of the Tobacco Master Settlement Agreement Fund.) This provision increases the amounts of the Tobacco Fund that may be expended. Conversely, it decreases the level of funds accumulating in the Trust Fund and reduces the interest earnings potential of the Trust correspondingly. *[SECTION 52]*

The bill also changes certain existing trust funds as accounts within the Indiana Tobacco Master Settlement Agreement Fund. These revisions are made for administrative purposes and have no fiscal impact. *[SECTIONS 53-71]*

The bill also establishes the Regional Health Care Construction Account within the Indiana Tobacco Master Settlement Agreement Fund to provide funding for state psychiatric hospitals and developmental centers, regional health centers, or other health facilities to provide crisis treatment, rehabilitation, or intervention for adults or children with mental illness, developmental disabilities, addictions, or other medical or rehabilitative needs. The bill provides for a $2 M retroactive appropriation for FY 2001 and a $14 M transfer during each year of the biennium from the Tobacco Master Settlement Agreement Fund to the Regional Health Care Construction Account. *[SECTION 72]* The bill also specifies that in the event of a shortfall in revenue to the Tobacco Master Settlement Agreement Fund, the full distribution shall be made to the Regional Health Care Construction Account with all remaining expenditures, transfers, or distributions being reduced by the amount of the shortfall. *[SECTION 52]*

The bill establishes the Tobacco Farmers and Rural Community Impact Fund Advisory Board. The Board is to meet at least quarterly to make recommendations concerning expenditures from the Tobacco Farmers and Rural Community Impact Fund. Members of the Advisory Board are not entitled to a per diem, however, Advisory Board member's travel expenses are reimbursable from the Fund. The bill also changes the purposes for which money from the Tobacco Farmers and Rural Community Impact Fund may be used and specifies that the Commissioner of Agriculture administers the fund. *[SECTIONS 73-75]*

Indiana Tobacco Master Settlement Agreement Fund appropriations exceed the statutory cap by $42.4 M in FY 2003. A summary of the Tobacco Fund provisions is provided in the following tables.

Tobacco Master Settlement Fund P.L.21-2000
Final Version Budget FY 2002 & 2003

	P.L.21-2000 FY 2001	Budget FY 2002	Budget FY 2003
Deposit Cash (Dec. 15, 1999)	50,363,358		
Deposit Cash (Dec. 30, 1999)	43,868,826		
Deposit Cash (April 18, 2000)	71,755,586		
Deposit Cash (April 27, 2000)	944,492		
Deposit Cash	5,488		
Deposit Cash (January 2001)	44,655,594		
Deposit Cash (April 2001)	81,869,475		
Total Revenue Received (Thru April 2001)	293,462,819		
Estimated Revenue		149,200,000	150,800,000
Less FY 2000 CHIP Appropriation	-18,800,000		
Less FY 2001 CHIP Appropriation	-28,100,000		
Total Revenue Available for the Year	246,562,819	149,200,000	150,800,000
Multiplier	50.00%	60%	60%
Available to be Distributed, Transferred or Spent	123,281,410	89,520,000	90,480,000
Plus Funds Available but not Expended in the Prior Year		36,781,410	20,021,864
Total Available to be Distributed, Transferred or Spent		126,301,410	110,501,864
Funds Appropriated	-86,500,000	-106,279,546	-152,870,000
Funds Available for Appropriation or Transfer to the Trust Fund	36,781,410	20,021,864	-42,368,136
Trust Fund Multiplier	50%	40%	40%
Total Designated for Trust Fund	61,640,705	35,808,000	36,192,000
Interest Received (Thru April 18, 2001)	8,662,478.77		

Tobacco Fund Appropriations	P.L.21-2000 FY 2001	Budget FY 2002	Budget FY 2003
Local Health Maintenance	(1,500,000)	(1,300,000)	(1,400,000)
Tobacco Use Prevention	(35,000,000)	(5,000,000)	(25,000,000)
Prescription Drug Program	(20,000,000)	(10,000,000)	(20,000,000)
Primary Health Care Centers	(15,000,000)	(15,000,000)	(15,000,000)
DDARS Administration	-	(3,000,000)	(3,000,000)
Developmentally Disabled Client Services	-	(16,379,546)	(27,270,000)
Local Health Dept. Trust Acct. (Jan. 2001)	(3,000,000)	(3,000,000)	(3,000,000)
Health Center Capital Appropriation	(10,000,000)		(1,000,000)
Regional Health Care Construction	(2,000,000)	(14,000,000)	(14,000,000)
Rural Community Impact Fund		(5,000,000)	(5,000,000)
Children's Health Insurance Program (CHIP)		(29,000,000)	(33,600,000)
Health Care Advisory Board Exclusive of CHIP		(4,100,000)	(4,100,000)
& Newborn Screening		(500,000)	(500,000)
Total Appropriations	(86,500,000)	(106,279,546)	(152,870,000)

School Funding and Education Provisions *[SECTIONS 89-111]:* The tuition support formula provides for a 3.5% increase in funding to local schools for CY 2002 and CY 2003. The following table shows the approximate distribution under the formula.

	CY 2001	CY 2002	% Inc.	CY 2003	% Inc.
State	3,363,300,000	3,471,100,000	3.2%	3,594,200,000	3.5%
Property Taxes	1,659,500,000	1,717,900,000	3.5%	1,778,200,000	3.5%
Prior Year Excise	198,800,000	215,300,000	8.3%	220,400,000	2.4%
Total	5,221,600,000	5,404,300,000	3.5%	5,592,800,000	3.5%

Beginning Teacher Internship Program [SECTIONS 172-175]: The bill repeals the Beginning Teacher Internship Program administered by the Professional Standards Board as of July 1, 2001. Beginning teacher and administrator support will be part of the FY 2003 Professional Development Program administered by the Department of Education.

Alternative Education Grant Program [SECTION 176]: The bill repeals the definition of reporting period. The change would probably have minor impact on the program.

Jay County School Corporation Repayment [SECTION 241]: The Jay County School Corporation used a private holding company to finance a school bond. The school made annual payments to the holding company, but the funds were not forwarded to the bond holder. The bond holder used the state intercept law to recover the amount owed of $1,665,814. The state plans to advance future state funds to the bond holder. Currently, Jay County School Corporation is required to repay the State Treasurer in 60 payments of $27,763.57 beginning on January 15, 2001. The bill extends the repayment of the advance by 10 years at $13,882 per month. The reduction in state revenue due to the delay in the repayment of the advance of state funds for Jay County School Corporation would be about $83,289 for FY 2001 and $166,579 for each of FY 2002 and FY 2003.

PTRF Distribution for Budget Shortfalls Due to Delinquent Property Tax Payments [SECTIONS 206, 238- 240]: A school would be able to apply to the School Property Tax Control Board to receive a distribution from the Property Tax Relief Fund if a taxpayer has missed two tax payments due to the taxpayer's filing of bankruptcy. The loss in assessed valuation has to be at least 9% of the school assessed valuation. The distribution is then included in the definition of prior year revenue for school tuition support. The assessed valuation used for the school formula could also be reduced by the amount of bankruptcy assessed valuation. Currently, one school, Northwest Hendricks School Corporation, would qualify for about $720,000.

Bonding Authority *[SECTIONS 51-52]:* The bill authorizes Purdue University to issue bonds up to $5 M to construct, remodel, renovate, furnish, and equip the Recreation Gymnasium project. The bonding authority was originally approved in the 1999 budget bill. The project is not eligible for fee replacement. The bill also authorizes Indiana University to construct a women's field hockey facility on the Bloomington campus at a cost of $1 M to be funded from dedicated student fees at no cost to the state.

Rainy Day Fund *[SECTIONS 44, 49]:* The bill also transfers funds in the Rainy Day Fund in excess of the June 30, 2001 balance. This would include transfers from the General Fund required to meets its statutory allowable balance, interest earnings, and loan repayments. Based on the April 12, 2001 revenue forecast, the maximum allowable balance on June 30, 2001 would be $530.3 M. The statutory maximum allowable balance for FY 2002 is estimated to be $551.8 M and $577.5 M for FY 2003. This bill would keep the balance at $530.3 M for FY 2002 and FY 2003.

The bill also allows additional transfers from the Rainy Day Fund if the Budget Director makes a determination that there are insufficient funds in the General Fund for the state to meet it statutory obligations and keep a positive balance. Any transfer must be reviewed by the Budget Committee and approved by the Governor. *[SECTION 49]*

Property Tax Provisions: *Commuter Rail Service Fund [SECTIONS 112, 232]:* Under P.L. 253-1999, funding for the Commuter Rail Service Fund was switched from rail car property tax proceeds to a percentage (0.17%) of sales tax proceeds. The rail car property tax proceeds were then to be deposited into the state General Fund. An oversight caused the rail car property tax money to continue flowing into the Commuter Rail Service Fund until late 2000. All of the money in the fund is used by the Northern Indiana Commuter Transportation District (NICTD) to offset operating expenses and to match federal improvement grants.

NICTD received approximately $9.1 M from the Commuter Rail Service Fund in FY 2000. Approximately $5.85 M of that distribution was from money not intended for the fund. NICTD’s FY 2001 distributions have not been affected. This bill would permit NICTD to retain any money distributed from the Commuter Rail Service Fund before January 1, 2001. This means that NICTD would not need to repay the $5.85 M in distributions that they received in error.

In addition, this provision would redirect the rail car property tax proceeds to the Commuter Rail Service Fund from the state General Fund beginning July 1, 2001. These funds could be used only for debt financing of NICTD’s long term capital needs. This provision would cause an increase in NICTD funding estimated at about $3 M - $4 M per year and a reduction in state General Fund revenues in the same amount beginning July, 2001.

Personal Property Tax Credit [SECTIONS 122 - 124]: Under current law, the state pays a property tax credit equal to the net tax liability on the first $12,500 of assessed value of a taxpayer's tangible personal property. This credit is commonly referred to as the Personal Property Tax Replacement Credit (PPTRC). Because of a change in the definition of assessed value that took effect with the 2001 payable 2002 tax year, the credit for $12,500 AV will be based on $37,500 AV instead. This scheduled change does not affect final tax bills or state costs in any way. For clarity, references to assessed valuation will be in 2002 terms.

The current credit is a property tax credit which reduces the net property tax payment of personal property tax payers. Each taxpayer is entitled to one credit for up to $37,500 AV on each tax statement. A taxpayer receives one tax statement for each taxing district in which the taxpayer owns property. There are multiple taxing districts within each county. In CY 2000, the first year for which the credit was available, the state paid $181.4 M in credits.

Under this provision, the credit would be repealed for property taxes paid in CY 2002. The bill replaces the property tax credit with an income tax credit beginning with property taxes paid in CY 2003. Mobile homes, non-business property, and utility property would no longer qualify for the credit beginning in CY 2003.

The bill would limit each taxpayer to one credit for up to $37,500 AV within the state. The taxpayer’s assessed value within multiple districts in the state could be combined to reach the $37,500 AV statewide limit. Since this bill would allow credit for up to $37,500 AV statewide per taxpayer, it would reduce the credit amount to which a taxpayer is entitled if the taxpayer is currently receiving PPTRC on a total of more than $37,500 AV in multiple taxing districts within the state. The consolidation of the $37,500 AV statewide limit on a statewide basis would reduce the amount that the state pays for the credit.

The income tax credit may be taken against the taxpayer's liability under the Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years, but they may not claim a refund.

This analysis assumes that the next reassessment of real property will be effective with property tax paid in CY 2003. The real property reassessment will affect property tax rates which are applied to both real and personal property values.

State expenses would be reduced by the repeal of the current personal property tax credit. Subsequently, state revenues would be reduced by implementation of the income tax credit. The following table lists the estimated overall change in the state’s cost for the credit.

Estimated Net Cost of Personal Property Tax Replacement Credit (In Millions)			
	Current Cost (Expense Reduction)	**Cost under Proposal (Revenue Reduction)**	**Net Cost Reduction**
FY 2002	$190.4	$94.3	$96.1
FY 2003	162.1	0.0	162.1
FY 2004	133.1	87.9	45.2
FY 2005	135.8	89.7	46.1

The large reductions in the FY 2002 and FY 2003 expenses are caused by the repeal of the credit beginning in CY 2002 and a shift in the timing of the credit’s effect on the state due to the change from a property tax credit to an income tax credit. As a property tax credit, the state pays the credit in equal installments in June and December of the property tax year in which the credit is accrued. Under this proposal, the state’s entire expense for a year would come in the first few months of the calendar year following the property tax year in which the credit is accrued. The impact of the income tax credit for tax year 2003 will not occur until FY 2004.

Homestead Credit [SECTION 125]: Under current law, the Homestead Credit percentage is scheduled to decrease from 10% to 4% in 2002. This bill provides that the Homestead Credit percentage will remain at 10% for CY 2002 and CY 2003.

In CY 2001, Homestead Credits (at 10%) amounted to about $192.4 M. The cost of the current 4% credit is estimated at $81.1 M in CY 2002 and $102.0 M in CY 2003. An increase to 10% would bring the total cost to about $202.8 M in CY 2002 and $255.0 in CY 2003.

The increase in homestead credits under this proposal is estimated at $121.7 M in CY 2002 and $153.0 M in CY 2003. On a fiscal year basis, the increase would amount to $60.8 M in FY 2002, $137.4 M in FY 2003, and $76.5 M in FY 2004.

Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). In the event that the PTRF falls short, a transfer is made from the State General Fund to cover the difference. Since these transfers are needed each year to cover PTRF expenditures at current rates, the funding for this proposal will ultimately come from the State General Fund.

Mobile Home Deductions and Homestead Credit [SECTIONS 129 - 145]: The State pays a 20% Property Tax Replacement Credit (PTRC) on mobile home assessments. If, as explained in Explanation of Local Revenues, the tax paid by mobile home owners is reduced, then the State's PTRC expense will decrease by about $2.2 M in CY 2002, $1.5 M in CY 2003, and $1.6 M in CY 2004.

The bill would also make mobile homes eligible for the state Homestead Credit. The cost of the Homestead credit is estimated at $1.1 M in CY 2002, $764,000 in CY 2003, and $312,000 in CY 2004. (Note: The 2002 and 2003 credits would be paid at the 10% rate while the 2004 and later credits would be paid at 4%. The reassessment that is scheduled to take effect in CY 2003 would reduce tax rates in 2003 which would reduce mobile home tax liabilities and the cost of the Homestead Credit on mobile homes.)

The net effect on the state of allowing deductions and the Homestead Credit on mobile homes is estimated to reduce state expenditures by approximately $1.1 M in CY 2002, $764,000 in CY 2003, and $1.2 M in CY 2004. On a fiscal year basis, the total savings is estimated at $557,000 in FY 2002, $939,000 in FY 2003, and $1.0 M in FY 2004. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF) which is supplemented by the General Fund each year.

Property Tax Replacement Credit Payment Delay [SECTION 219]: Under current law, distributions from the Property Tax Replacement Fund (PTRF) to local government units are made six times per year in March, April, May, September, October, and November. This proposal would delay the May 2001 Property Tax Replacement Credit (part of the PTRF distribution) payment until July 2001. This payment is expected to total $142.6 M. The effect would be to reduce expenditures by $142.6 M in FY 2001 and increase FY 2002 expenditures by the same amount.

Budgetary Shortfalls Because of a Taxpayer's Bankruptcy [SECTIONS 204 -210]: The bill would reduce the assessed valuation used in the school formula by the amount of the loss in assessed valuation due to the bankruptcy. The impact on the school formula would be to increase state tuition funding by about $4.5 M annually.

Transfer from the Build Indiana Fund to the Property Tax Replacement Fund [SECTION 121]: The bill requires the transfer of $200 M in FY 2002 and $175 M in FY 2003 from the Build Indiana Fund (BIF) to the Property Tax Replacement Fund (PTRF). (The transfer is required under a noncode section expiring June 30, 2003.) BIF was established by IC 4-30-17. Under the current statute, a portion of surplus lottery revenue and all surplus gaming revenue is distributed to the Lottery and Gaming Surplus Account (LGSA) within BIF. The table below outlines the actual and estimated surplus lottery and gaming revenue for FY 2000 to FY 2003, along with required statutory distributions.

Surplus Lottery and Gaming Revenue & Distributions (Millions)*

Revenues & Distributions	FY 2000 (Actual)	FY 2001 (Projected)	FY 2002 (Projected)	FY 2003 (Projected)
Surplus Lottery Revenue	$173.3	$155.0	$155.0	$155.0
TRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
PRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
Surplus Lottery Revenue to the LGSA	$113.3	$95.0	$95.0	$95.0
Surplus Gaming Revenue to the LGSA	$252.5	$274.2	$283.7	$283.7
Interest	$18.1	$24.5	$25.0	$25.0
Total Revenue to LGSA	$383.9	$393.7	$403.7	$403.7
MVETRA Transfer	($219.8)	($234.7)	($236.2)	($236.2)
PTRF Transfer**	$0	$0	($200.0)	($175.0)

*Updated as of 1/25/01.

**Requires $40 M from the State and Local Capital Projects Account balance during the biennium.

Money in the Build Indiana Fund comes from surplus lottery and gaming revenues. Specifically, surplus lottery revenue is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). (These transfers total $60 M each year.) Once these transfers are made, the remaining surplus lottery revenue is then distributed to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund (BIF). The LGSA also receives surplus gaming revenues (revenues from the Riverboat Wagering Tax, the Parimutuel Wagering Tax, and the Charity Gaming Excise Tax). A statutorily determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. (Beginning with FY 2002 and continuing each year thereafter, the MVETRA transfer is equal to approximately $236.2 M.) The remaining money in the LGSA is then transferred to the State and Local Capital Projects Account (SLCPA).

After transfers to MVETRA, the PTRF transfers will require use of $32.5 M in FY 2002 and $7.5 M in FY 2003 of the balance in SLCPA. Also, due to the additional transfers to PTRF, the biennial appropriations for state and local capital projects will exceed the estimated amounts available in SLCPA for these projects by roughly $8.1 M. The FY 2002 beginning balance in SLCPA is estimated to be $342.1 M. The PTRF transfer totals $375.0 M for the biennium and the biennial appropriation for state and local capital projects is $310.2 M . Given the SLCPA balance and estimated biennial revenue to the LGSA totaling $807.4 M, the PTRF transfers would leave approximately $302.1 M in SLCPA for state and local projects during the biennium.

Money in the Property Tax Replacement Fund is utilized to pay for Property Tax Replacement Credits and Homestead Credits. Revenue to the Fund comes from the Sales Tax and the Corporate Adjusted Gross Income Tax. In addition, the Property Tax Replacement Fund is annually supplemented by transfers from the state General Fund. In FY 2000, $568.6 M was transferred from the state General Fund to the Property Tax Replacement Fund. Consequently, the transfers from the Build Indiana Fund will reduce the state

General Fund transfers otherwise needed for the Property Tax Replacement Fund in FY 2002 and FY 2003.

Other Tax Provisions: *Earned Income Tax Credit [SECTION 152]: Secondary impact* - The refundable portion of the Earned Income Tax Credit qualifies as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program. The refundable portion of the earned income credit is estimated to range from $12.7 M to $15 M.

Oil Rerefining Facility Tax Credit [SECTIONS 149 -152]: The bill creates a tax credit for oil rerefining facilities. The bill requires a taxpayer to request the Department of Commerce to determine if the taxpayer is entitled to the credit. The taxpayer must make this request in the manner and on forms prescribed by the Department. Presently, only one company is expected to qualify for the tax credit. Thus, any expenses related to this review process should be minimal and can be absorbed by the IDOC.

Capital Investment Tax Credit [SECTIONS 177-178]: This bill creates the Capital Investment Tax Credit and would require the Indiana Department of Commerce (IDOC) to adopt rules and review notices submitted by companies intending to claim this credit. The IDOC would then inform the Department of State Revenue (DOR) whether or not the company is entitled to the credit. Presently, only one company is expected to qualify for the tax credit. Thus, any expenses related to this review process should be minimal and can be absorbed by the IDOC. The April 2, 2000, Manning Table indicates that the Lieutenant Governor's Office has 30 vacancies. The DOR would have to adopt rules and develop new forms for the reporting of this new credit, but the Department would be able to absorb any related expenses of processing, printing, and programming within its current budget.

Loan Guarantee *[SECTIONS 146-148]:* Loan Guaranties by IDFA and PDIF - The bill would allow the Indiana Development Finance Authority (IDFA) to make a loan guarantee of up to $35 M jointly with the Public Deposit Insurance Fund (PDIF). This authority would expire on December 31, 2002. The bill requires the PDIF to participate in the loan guarantee. The loan guarantee must benefit a "leading" Indiana business in conjunction with an industrial development project located outside Indiana. A "leading" Indiana business is defined as a business that: (1) is headquartered in a county having a population between 60,000 and 64,000 (Bartholomew County); is a Fortune 500 company as of April 16, 2001; (3) pays wages at a level at least 200% of the county average wage; and (4) is a global business participating in international markets. Only one company is expected to meet these criteria for a loan guarantee.

The bill prohibits the IDFA's liability in a joint loan guarantee from exceeding $2 M. If a loan guarantee exceeds $2 M, the PDIF would be liable for the portion of the guarantee exceeding that amount. The bill further requires that any loss on a loan guarantee up to $2 M must be paid first from the Industrial Development Project Guaranty Fund. The maximum term of a loan guarantee is 10 years. At the end of FY 2000, the assets of the PDIF totaled approximately $300 M. For FY 2000, expenses of the Fund amounted to about $336,000. The FY 2001 ending balance of the Industrial Development Guaranty Fund is estimated to be approximately $3.8 M.

The PDIF was created in 1937 to insure the deposits of public monies in Indiana's banks, much the same way the FDIC (Federal Deposit Insurance Company) insures depositor's monies. PDIF funds are managed by the State Treasurer. The State Treasurer is Secretary-Manager for the Board of Public Depositories. The purpose of the Board of Public Depositories is to insure the safekeeping and prompt payment of all public funds deposited in any approved depository through the management of the PDIF.

The PDIF is funded by assessments payable by every depository that has public funds. The Board may waive this assessment if, in its discretion, it determines that the assets of the fund are equal to the reserve for losses. At the present time, the Board has waived the assessment. The Board has the authority to invest, reinvest, and exchange investments of the PDIF in excess of the cash balance in certain securities set out in IC 5-13-12.

Medicaid and TANF Provisions: *Reduction in Reimbursement for Over-The-Counter (OTC) Drugs [SECTION 154]:* A 10% reduction in reimbursement for OTC drugs in the Medicaid program is estimated to result in reduced state expenditures of $304,000 in FY 2002 and $342,000 in FY 2003. (Reduced total expenditures are estimated to be $800,000 in FY 2002 and $900,000 in FY 2003.

Maximum Allowable Cost for Off-patent Drugs [SECTION 155]: The implementation of a Maximum Allowable Cost schedule for off-patent drugs is estimated to result in reduced state expenditures of about $760,000 per year. (Reduced total expenditures are estimated to be about $2 M per year.)

Generic Drugs Under CHIP [SECTIONS 233-234]: This provision is expected to result in a reduction of state expenditures in the CHIP program by $46,000 in FY 2002 and $62,000 in FY 2003. (Total expenditure savings, state and federal dollars, would be about $172,000 in FY 2002 and $229,000 in FY 2003.) Prescription drugs accounted for about 14% of CHIP expenditures in FY 2000. Generic substitution is already required in the regular Medicaid program (IC 16-42-22-10). This provision would require that this provision apply to the CHIP program, as well. In addition, unlike the Medicaid program, the federal allotment for the CHIP program is capped. Consequently, a reduction in expenditures for prescription drugs will allow those dollars to be utilized for other services within the CHIP program.

CRF/DD and ICF/MR Assessments [SECTION 216]: A preliminary estimate of the net gain to the state from an increase in the CRF/DD and ICF/MR rate of assessment from 5% to a maximum of 10% is a maximum of $7.0 M if permitted by federal statutes and regulations.

Authority to Adopt Emergency Rules in the Medicaid Program [SECTION 48]: The Budget Director, after review by the Budget Committee, may direct FSSA to adopt emergency rules to the Medicaid program to decrease Medicaid expenditures to the level of Medicaid appropriations provided in this bill.

Medicaid Managed Care Program Participation [SECTION 160]: The bill also requires eligible Medicaid recipients in Lake, Allen, St. Joseph, Vanderburgh, and Elkhart counties to enroll in the Medicaid Risk-Based Managed Care (RBMC) program. OMPP estimates cost savings in the RBMC program to be about 6% compared to the fee-for-service-based Primary Care Case Management (PCCM) program. However, whether the RBMC program could achieve this level of savings in all counties and the amount of time required to move recipients into the RBMC program is not known.

Other provisions within the bill will require initial expenditures, but may result in reduced future costs in the Medicaid program. The net costs and benefits will depend upon administrative action. These provisions include the following: (1) contracting with a pharmaceutical benefit manager (PBM) for the prescription drug program and contracting with an independent contractor to report on the success of the PBM in reducing expenditures *[SECTION 156]*; (2) implementing an information strategy directed to high-volume prescribers of pharmaceuticals *[SECTION 157]*; (3) implementing a case management program for aged, blind, and disabled Medicaid recipients *[SECTION 159]*; (4) implementing a disease management program in several counties *[SECTION 161]*; (5) contracting for an audit of the prescription drug program *[SECTION 165]*.

Pension Provisions *[SECTIONS 126, 127]:* These provisions are expected to have no fiscal impact.

Penalty Provisions *[SECTION 222]:* This section adds language to restore a reference to the defined term "previous conviction of operating while intoxicated" in the drunk driving law that was eliminated in HEA 1618-2001. Because this provision ensures that an existing section in the Indiana Code is not changed, no fiscal impact would be expected.

[SECTION 223]: This section involves assignment to community transition programs. Class A and B felons who are sentenced for nonviolent drug felonies could be assigned to community transition programs for up to 180 days. (Under current law, these offenders may be assigned to community transition programs for up to 120 days.) As proposed, Class C felons may be assigned to community transition programs for 90 days if they have been sentenced for a nonviolent drug felony. (Under current law, Class C felons may be assigned to the community transition program for a maximum of 60 days.)

These changes are likely to have a limited effect on beds saved based on historical trends. The percentage of Class A and B felons who have been assigned to community transition programs between January 2000 and January 2001 has ranged between 0% and 5%. For Class C felons, the percent assigned to community transition programs has ranged between 4% and 12%. Based on the percentage of offenders who have been assigned to community transition programs in the past 13 months and on the number of offenders who have a release date in FY 2002, the changes in the bill could save DOC between two and six beds that could be freed annually to accommodate other offenders. If the participation rate increases, then additional beds could be freed.

[SECTION 224]: This section involves placement in community corrections programs and could reduce the number of offenders in DOC facilities depending on the decisions of the sentencing courts. The potential reduction will depend on the number of counties with community corrections programs, their capacities, and the predisposition of the sentencing courts concerning each offender.

[SECTION 225]: This section resolves the current conflict in the sentencing statute concerning how minimum sentences are determined for murder and Class D felonies. Consequently, the practical effect is that no change will occur in sentencing patterns of the trial courts. While IC 35-50-2-1(c)(1) specifies that the minimum sentence for murder is 30 years, IC 35-50-2-3 states that the fixed term is 55 years with not more than 10 years added for aggravating circumstances and 10 years subtracted for mitigating circumstances. For Class D felonies, IC 35-50-2-1 specifies that the minimum sentence is one year while IC 35-50-2-7 specifies that the fixed term is 1.5 years with 1.5 years added as aggravators and one year subtracted for mitigators.

[SECTION 226, 227]: Currently, under IC 35-50-2-8, the habitual offender statute, offenders who have accumulated two prior unrelated felonies may be sentenced to an additional term of imprisonment ranging between the presumptive sentence for an underlying offense and three times the presumptive sentence for the underlying offense. This provision will prohibit the state from seeking sentencing as a habitual offender if the offense is for a controlled substance offense that is not a Class A felony for dealing and the person does not have more than one prior conviction for dealing in a controlled substance.

Currently, under IC 35-50-2-10, the habitual drug offender statute, offenders who have accumulated two prior unrelated felonies for substance abuse convictions can be sentenced to an additional term of prison ranging from one to eight years. This provision would reduce the minimum sentence for a habitual substance offender from three years to one year if the person has not been convicted of a controlled substance offense while possessing a firearm, delivering drugs to a person under 18 and was not on a school bus or within 1,000 feet of certain facilities when making these deliveries.

The estimated number of beds which might be saved would begin in FY 2003 for Class D felons, in FY 2004 for Class C felons, in FY 2005 for Class B felons, and FY 2012 for Class A felons.

The estimated number of beds that would be saved each year over a 15-year period is shown in the following table for both proposals:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Habitual Offenders	12	15	20	25	27	29	31	33	35	35	36	36	37	37	38	38
Habitual Substance Offenders	9	10	12	14	15	15	16	16	17	17	18	18	19	19	20	20
Total Number of Beds Saved:	21	25	32	39	42	44	47	49	52	53	54	55	56	57	58	59

Substance Abuse and Chemical Dependency Parity *[SECTION 230]:* The premium cost incurred by the state in providing health insurance benefits to state employees could increase by up to $30,000 to $48,000 in FY 2002 and $78,500 to $125,500 in FY 2003 as a result of the bill.

The bill requires the state employee health plans to provide for parity of coverage for substance abuse and chemical dependency treatment when such treatment services are required in the treatment of a mental illness. The bill also specifies that the parity requirement applies to contracts for health services or health insurance entered into, delivered, or renewed after June 30, 2001. The current 3-year contracts with the HMOs providing health benefits to state employees were entered into on January 1, 2000. Thus, the parity requirement would not impact the benefits provided by HMOs until the next contract period beginning January 1, 2003. Presumably, however, the bill could impact the cost of the state's indemnity plan beginning as early as January 1, 2002, when the next open enrollment period is completed. As a result, any increase in premium cost during FY 2002 would be attributable to changes in coverage under the state's indemnity plan. Cost increases in FY 2003 would be attributable both to changes in coverage under the state's indemnity plan and in coverage under the new HMO contracts.

Research by the U. S. Substance Abuse and Mental Health Services Administration (SAMHSA) suggests that requiring health plans to provide for parity in coverage for substance abuse treatment will lead to an estimated 0.3% increase in premiums of Preferred Provider Organizations (PPO) and traditional indemnity plans and an estimated 0.04% increase in premiums of Health Maintenance Organizations (HMO). Presently, there are seven health plans available for state employees. One of these health plans is a traditional indemnity plan and the remainder are HMOs. Additional research by SAMHSA suggests that 41% to 65.5% of people with an addictive disorder also have at least one mental disorder. Based on this research, coverage parity for substance abuse treatment services required for treatment of mental illness could increase the total premium costs of the state employee health plans by $32,000 to $51,000 in FY 2002 and $84,000 to $134,000 in FY 2003. By agreement with the state employees, the state agrees to pay 93.5% of any increase in the total premiums for both single and family coverage during the life of the agreement. Employees will pick up the remaining 6.5% of any increase. Consequently, the state share of the increase in premium cost is estimated to be about $30,000 to $48,000 in FY 2002 and $78,500 to $125,500 in FY 2003.

Potentially, the impact of the parity requirement for the state health plans could be less than what is estimated in accordance with the above-described research. While the state health plans generally provide some coverage for substance abuse and chemical dependency treatment, it appears that they do not provide for parity in coverage for such treatment with treatment of other illnesses. However, a review of the substance abuse treatment benefits of the state health plans reveals that some of the plans currently exceed the baselines used in the research for covered treatment days, covered treatment visits, and/or coinsurance levels.

State Veterans' Cemetery Fund *[SECTIONS 217, 218]:* P.L.273-1999 established the Veterans' Cemetery Operation Fund as a non-reverting fund and appropriated $1.5 M to the Fund over the biennium. The Fund was created in a non-code section. This provision would combine the Veterans' Cemetery Operation Fund into the existing statutory State Veterans' Cemetery Fund, including any existing balance in the Operation Fund, before July 1, 2001. Since both funds are non-reverting and have the same basic function, there is no real fiscal impact to this provision.

Miscellaneous Provisions:

[SECTION 76]: This bill also adds regional health facilities to the types of facilities that the State Office Building Commission may own or lease. The impact of this bill on the Commission is unknown and will be partially determined by the number of regional health facility projects with which the Commission becomes involved.

[SECTION 88]: The Department of Natural Resources (DNR) will administer the State Museum Development Fund. The DNR will be able to administer the fund at no additional expense. The balance of the Fund is continuously appropriated and may be used at the request of the DNR with the approval of the Budget Agency after review by the Budget Committee.

[SECTION 113-117]: The bill allocates 1% of the state's private activity bond volume cap to the Indiana Secondary Market for Education Loans, incorporated (ISMEL). The current CY 2001 volume cap is approximately $380 M. Under the current statute, IDFA is allocated 10% of the volume cap, or approximately $38 M. This bill changes the IDFA's allocation to 9% and reallocates 1% to ISMEL which would be approximately $34.2 M and $3.8 M respectively.

Extension of FSSA [SECTIONS 212-215]: This bill also extends the expiration date of the administrative structure of FSSA to July 1, 2002. The FSSA administrative offices affected are:

(1) The Office of the Secretary of Family and Social Services.
(3) The Office of Medicaid Policy and Planning.

The bill also extends to July 1, 2002, the expiration date of a statute that governs procedures of Family and Social Services Advisory Councils and the expiration date of statutes that relate to certain powers of the directors of the following divisions:

(1) Disability, Aging, and Rehabilitative Services.
(2) Family and Children.
(3) Mental Health.

This bill will continue the administrative structure of FSSA as it currently exists. Depending upon the actions of the administration, failure to have passed this provision, in practice, would not necessarily have an immediate fiscal impact. Upon its statutory expiration on July 1, 1999, FSSA was extended by the Governor's executive order. In lieu of this bill or a continuation of the executive order, if the positions were able to be absorbed or reallocated under the existing appropriations, any potential fiscal impact from the termination of these entities would more likely arise from the loss of rule-making authority vested in these positions by statute.

Development of a U.S. 31 Corridor Preservation Program [SECTION 221]: The INDOT has estimated that this provision will cost $3.5 M to implement and will require them to rearrange some funding priorities for FY 2002.The fund affected is the State Highway Fund and potentially federal funds. The INDOT has identified the following as parts of the proposed scope of work on the pilot project:

1) Development of INDOT Corridor Preservation Program. The INDOT consultant will form a task force to oversee the development of the proposed Corridor Preservation Program approach.
2) Prototype implementation of the Corridor Preservation Program on U.S. 31 Corridor from I-465 to U.S. 20.
3) Development of environmental studies to define corridor alternatives between U.S. 31 Corridor areas currently under Environmental Impact Study development and coordination with those environmental studies necessary to identify alignment alternatives.
4) Identification of priority U.S. 31 segments for Corridor Preservation Program.
5) Development of detailed Corridor Preservation actions for priority segments.
6) Evaluation of Prototype Corridor Preservation Program and recommendations for continuing the INDOT Corridor Preservation Program.

Civil War Flags Commission [SECTION 128]: The bill would continue the Civil War Flags Commission through June 30, 2006. Under current law, the Commission would expire on July 1, 2001. The Commission is charged with raising funds for the restoration and preservation of civil war battle flags. The Commission is a nonprofit organization that may spend no more than 2% of the funds collected on administrative costs, including fund solicitation. The Civil War Flags Commission also advises the War Memorials Commission on the use of the money.

Indiana Commission for Women [SECTION 167]: The bill amends current law to require the Department of Workforce Development to provide staff and administrative support to the Indiana Commission for Women. Currently, the Indiana Civil Rights Commission is required to provide staff and administrative support to the Commission for Women. The Civil Rights Commission staff is in the process of estimating the current cost of staff and administrative support provided to the Commission for Women. This estimate is currently unavailable. The April 2, 2001, Manning Table indicates that the Department of Workforce Development has 109 vacancies. Thus, it appears that the Department should be able to absorb this additional administrative responsibility with existing resources.

State Board of Accounts Examiner Fee [SECTION 168]: Under current law, each local taxing unit is charged a $30 per day per examiner fee for examinations by the State Board of Accounts. This bill would increase the $30 fee to $45.

Explanation of State Revenues: (Revised) ***Property Tax Provisions:*** *Mobile Home Deductions and Homestead Credit [SECTIONS 129 - 145]:* The State would experience a reduction in the amount raised by the one cent State rate for State Forestry and State Fair. The reduction would amount to approximately $9,800 per year.

Budgetary Shortfalls Because of a Taxpayer's Bankruptcy [SECTIONS 204 -210]: This bill permits a qualified taxing unit in East Chicago facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund).

The bill limits the amount of the loan to $16.2 M. (See table in Explanation of Local Revenue for specific taxing unit limits.) No interest is to be charged on the loan. The bill requires that the loan be repaid in 10 years. The balance of the Rainy Day Fund as of June 30, 2000, was $539.9 M and is estimated to be $530.3 M at the end of FY 2001.

Other Tax Provisions: *Earned Income Tax Credit [SECTION 152]:* This bill extends the earned income tax credit through 2003. Under current law, the credit will expire December 31, 2001. *The estimated revenue loss from this credit is approximately $17.4 M annually.* The Earned Income Tax Credit is available to individuals who have the following: (1) at least one qualifying child; (2) income from all sources of not more than $12,000; and (3) at least 80% of total income from earned income. The amount of this refundable credit is equal to $12,000 minus the taxpayer's total Indiana income.

The DOR reported that preliminary estimates for the 1999 tax year showed approximately $16 M in Earned Income Credits claimed, with $12.7 M being refundable. This extension would affect revenue collections in FY 2003 and FY 2004 as this proposal is effective January 1, 2002, through December 31, 2003. Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

Oil Rerefining Facility Tax Credit [SECTIONS 149-152]: The tax credit could reduce revenue between $750,000 to $1.5 M in FY 2002 and between $375,000 to $750,000 in FY 2003. A taxpayer that owns a facility that processes rerefined lubrication oil would be entitled to a non-refundable credit against the taxpayer's state tax liability. The credit amount awarded would be a percentage of property tax paid by the taxpayer on (1) real property on which a facility that processes rerefined lubrication oil is located and (2) personal property used in the processing of rerefined oil to and from the processing facility. The credit allowed is a set percentage which would decline annually over the life of the credit. The following table defines the percentages.

Calendar Year	Credit Percentage
2001	100%
2002	80%
2003	60%
2004	40%
2005	20%

Unused credit can be carried forward for a period not to exceed two years. Therefore, all unused credit would have to be used by December 31, 2007.

Currently, at least one taxpayer would qualify for the credit. The property taxes paid by this taxpayer are estimated at $1 M in each of CY 2001 and CY 2002. The taxpayer has experienced a significant increase in property taxes due to the phase-out of the Resource Recovery Property Tax Credit.

Due to the effective date of this credit and potential impact on tax liability, a taxpayer could adjust their quarterly payments in anticipation of the credit. The potential impact in FY 2002 could include the full tax credit for tax year 2001 along with the first two quarterly payments of tax year 2002 adjusted for the anticipated 2002 tax credit. Depending on the income tax liability of the taxpayer, the proposed credit could reduce revenue between $750,000 to $1.5 M in FY 2002 and between $375,000 to $750,000 in FY 2003. It is unknown if the eligible taxpayer would be able to use the entire credit for a given year. The credit is not refundable and may only be carried forward for two years.

The estimated Oil Rerefining Tax Credit could also be effected by reassessment that will occur in CY 2003 since the taxpayers assessed valuation could change.

It is possible that additional unknown taxpayers either currently qualify for this tax credit or will be able to qualify in future years, therefore creating an indeterminable impact on future tax collections.

The credit may be applied to Corporate Gross, State Gross Retail and Use Tax, Adjusted Gross Income Tax, Supplemental Corporate Net Income Tax, Bank Tax, Savings and Loan Association Tax, Financial Institutions Tax, and the Insurance Premiums Tax. These taxes are deposited in the General Fund and the Property Tax Replacement Fund.

A taxpayer must request the Department of Commerce to determine the taxpayer's entitlement to the credit in the manner and on forms prescribed by the Department.

Capital Investment Tax Credit [SECTIONS 177-178]: The Capital Investment Tax Credit could reduce state tax revenues by as much as $3 M each year beginning in FY 2002. This bill creates a credit for companies making certain qualified investments of at least $75 M in Shelby County provided that the average wage paid to employees exceeds the average wage in that county. Qualified investments would include the purchase of new manufacturing equipment, on-site infrastructure improvements, and other expenditures outlined in the bill. The credit would be equal to 14% of the qualified investment made in a taxable year. The total credit would not be taken at once, but would be divided equally over seven years beginning in the year in which it is granted. Currently, only one company is expected to qualify for the tax credit. The qualified investment by this company is expected to be $150 M. Therefore, the company would be entitled to a total tax credit of $21 M with an annual impact of $3 M for seven years (excluding any amounts carried forward). This could be reduced by the "clawback" provision of the bill if the qualifying company fails to make the qualified investment within five years and the DOR seeks repayment of the tax credit.

This credit could be taken against a taxpayer's liability under the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, the Bank Tax, the Savings and Loan Association Tax, the Insurance Premium Tax, and the Financial Institutions Tax. Revenue from these taxes is deposited in the General Fund and the Property Tax Replacement Fund. If a pass-through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity may receive a credit equal to the amount determined for the entity multiplied by that person's share of distributive income.

If the credit exceeds a taxpayer's liability in a single year, the excess may be carried forward for up to three consecutive years. No carrybacks or refunds would be allowed. The credit is retroactive to January 1, 2001, and applies only to taxable years beginning after December 31, 2000. Thus, the first year of state impact would be FY 2002.

The bill requires that items for which the tax credit was granted must be fully installed or completed within 5 years of the date on which the IDOC informs the DOR that the taxpayer is entitled to the tax credit. If not, the "clawback" provision in the bill provides that the DOR may require the taxpayer to repay the amount of tax liability offset by the tax credit, plus interest.

Economic Development Project Districts [SECTIONS 199 - 201]: The establishment of economic development project districts in South Bend, Ft. Wayne, and Evansville could reduce state sales tax revenue by a total of $3 M. This bill allows these cities to establish a district and use up to 50% of the net increment of sales tax revenue generated in the district each year. The overall impact of this provision on state revenue will be determined by local actions. It is not known how much sales tax will be collected and transferred annually.

This bill does not give the cities' redevelopment commissions the privilege to collect a sales tax. It does, however, allow the commissions to capture a portion of the increase in sales tax revenue collected in the district that is *above* the revenue generated in a base year, as determined by the Department of Revenue. The bill limits these collections to a total of $1 M in each district.

Bureau of Motor Vehicles Provisions *[SECTIONS 182 - 194]:* Annual additional revenues from the $0.50 fee are estimated at approximately $5.1 M during CY 2002 and CY 2003. This is based on an estimated 10.2 million transactions. The funds affected are the Motor Vehicle Highway Account and the State License Branch Fund.

Explanation of Local Expenditures: (Revised) ***Penalty Provisions*** *[SECTION 224]:* This provision could increase the number of offenders in community corrections programs depending on the program capacity and the predisposition of the sentencing courts in the counties in which these programs are located.

Underground Petroleum Storage Tank Excess Liability Trust Fund *[SECTION 119]:* This bill transfers $4.5 M for FY 2002 and $4.5 M for FY 2003 from the Underground Petroleum Storage Tank Excess Liability Trust Fund (ELTF) to the Environmental Remediation Revolving Loan Fund. This bill also transfers $500,000 for FY 2002 and $500,000 for FY 2003 from the ELTF to the Oil and Gas Environmental Fund.

According to the Budget Agency and the Auditor's Office, the ELTF had a cash balance of $8,851,723 as of 6/30/00 with $69,999,660 in investments. According to IDEM, the ELTF is expected to bring in $26 M annually in FY 2001, FY 2002, and FY 2003. Expenses are estimated to be $21 M annually in FY 2001, FY 2002, and again in FY 2003. Obligations as of 6/30/00 were $1.9 M. There would be sufficient funds in the ELTF, if investments are included, to cover the transfers.

The Department of Natural Resources would also have an additional $1 M in revenue (from the ELTF) to expend in plugging abandoned oil and gas wells.

Local Provisions *[SECTIONS 179, 180, and 181]: CEDIT in Randolph County* -Revenue from the additional CEDIT rate increase of 0.25% for Randolph County would be used to pay the costs of financing, constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions. (Additional revenue would also be used for the repayment of bonds issued or leases entered into for those purposes.) The bill would allow Randolph County to impose an additional CEDIT rate only until the financing on constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions is completed. (Randolph County would then be required to reduce its CEDIT rate in accordance with current law.)

Miscellaneous Provisions *[SECTION 88]:* The State Museum Development Fund consists of revenue generated by exhibit fees, concessions, donations, grants, and other miscellaneous revenue. Money in the fund at the end of a state fiscal year does not revert to the State General Fund. An estimated $200,000 will be generated for the fund annually.

Explanation of Local Revenues: (Revised) ***Property Tax Provisions:*** *Homestead Credit [SECTION 125]:* Local revenues would remain unchanged under this provision. Net property tax bills for homeowners would be reduced by 6% in CY 2002 and CY 2003.

Mobile Home Deductions and Homestead Credit [SECTIONS 129 - 145]: Under this provision, the owners of mobile homes that are not assessed as real property would be eligible for the standard, mortgage, over 65, blind/disabled, disabled veteran, and WWI veteran deductions. The total of the deductions would be limited to 50% of the assessed value of the mobile home. The average assessed value of mobile homes that are not assessed as real property is estimated to be about $5,900. The $6,000 standard deduction would most likely provide all mobile home owners with their maximum allowable total deduction ($2,950 on average).

Assessments on mobile homes that are not assessed as real estate are not considered part of the certified value that is used to compute tax rates. The revenue from this tax is, however, considered property tax revenue and may be used to offset shortages in levy collections. While the tax rate will not be affected by deductions for mobile homes, the revenue received by the local units will be reduced by approximately $11.1 M in CY 2002, $7.6 M in CY 2003, and $7.8 M in CY 2004. The revenue reduction will continue for all years past 2004.

Budgetary Shortfalls Because of a Taxpayer's Bankruptcy [SECTIONS 204 -210]: Under this provision, the county auditor would be permitted to keep separate the assessed value of a taxpayer that accounts for at least 9% of a taxing unit’s assessed value if the taxpayer is or has been in bankruptcy, business operations have been discontinued, and there is a high probability that the taxpayer will not pay the property taxes due in the next year. The valuation of such a taxpayer would not be used in the computation of tax rates. The rates would then be set high enough to generate the taxing units’ certified levies without payment from the subject taxpayer. This will shift the bankrupt taxpayer’s tax burden to all other taxpayers, at least temporarily.

Under current law, a local taxing unit could have applied for a no interest loan from the state’s Rainy Day Fund if a property taxpayer has filed for bankruptcy protection and the taxing unit has experienced significant revenue shortfalls. The loan would have to have been repaid by January 1, 2000.

This provision would allow a taxing unit to apply for a loan with repayment within 10 years. The bill would also require an expectation of continued significant revenue shortfalls in order for the taxing unit to qualify. Additionally, the taxpayer’s bankruptcy petition must be a reorganization petition and the taxpayer must be a steel manufacturer that owns at least 18% of the unit’s assessed value. The bill also increases the maximum loan amount. The current and proposed maximum loan amounts are:

Unit Type	Current Max Loan	Proposed Max Loan
City	$1,800,000	$5,500,000
Sanitary District	$600,000	$1,900,000
Library District	$225,000	$800,000
School Corp.	$2,200,000	$8,000,000

The money used to repay the loans must come from a fund that is subject to the unit's maximum permissible levy. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy. Additionally, the bill requires that if loan proceeds plus any tax payments from the subject taxpayer exceed $16 M, then the amount over $16 M would be deposited into the taxing units' Levy Excess Funds.

Underground Petroleum Storage Tank Excess Liability Trust Fund *[SECTION 119]:* Additional funding may be available for local units to receive from the Environmental Remediation Revolving Loan Fund.

Local Provisions *[SECTIONS 179, 180, and 181]: CEDIT in Randolph County* - Under current law, counties are allowed to impose CEDIT at a tax rate of up to 0.5% (with certain exceptions). Under this bill, Randolph County would be allowed to impose CEDIT at a tax rate of up to 0.75%. The CY 2001 CEDIT certified distribution at a .25% rate for Randolph County is $826,220. (As described below in the *Background* section, Randolph County does not currently adopt the maximum CEDIT rate of 0.5% due to its CAGIT rate of 1.0%.) An additional 0.25% CEDIT rate would equal approximately $826,220 in additional revenue for the entire year.

Randolph County would be allowed to adopt the CEDIT rate increase after March 31,2001, which would take effect January 1, 2002. If the county council imposes the increase as described above, Randolph County would begin receiving revenues beginning in January of 2003. The projected collections for CY 2003 are not available at this time. (However, these amounts are assumed to be similar to the CY 2001 projected collections.) *Background*- For CY 2001, the CEDIT rate for Randolph County is currently .25%. Under current Indiana law (with few exceptions), counties that impose CAGIT and CEDIT may not exceed a combined CAGIT/CEDIT rate of 1.25%. Currently, Randolph County has a combined CAGIT/CEDIT rate of 1.25%. Randolph County would be allowed to adopt a combined rate of 1.5% until required to reduce its CEDIT rate in accordance with the provisions of this bill.

Dearborn County PILOTS [Sec. 195 - 197]: This provision would add Dearborn County to the Marion County PILOT law. It would exempt from taxation real property located in Dearborn County and owned by an Indiana corporation if the improvements were constructed, rehabilitated, or acquired to provide low income housing; the property is subject to an extended use agreement; and the owner agrees to make payments in lieu of taxes (PILOTS). With the approval of the property owner, the county fiscal body may adopt an ordinance requiring that the property owner pay PILOTS. The payments would be equal to the taxes that would have been levied on the property if it were not exempt. These payments would be distributed to local taxing units as if they were property tax.

Total local revenues would increase under this provision. When assessed value is added to the tax base, the property tax levy remains the same, but tax rates are reduced. In this case, the removal (or non-addition) of valuation to the property tax rolls would have the effect of increasing (or not reducing) the tax rates. The PILOTS generated by this property would be considered miscellaneous revenue and would be collected outside of any levy limitations. The actual fiscal impact depends on the number and location of projects approved under this proposal.

Economic Development Project Districts [SECTIONS 199 - 201]: If South Bend, Ft. Wayne, and Evansville were to utilize the incremental sales tax provisions in this bill, it could increase local revenue annually by an indeterminable amount. The total amount of sales tax increment is limited to $1 M over the duration of each district. The bill specifies that this revenue could only be used for improvements related to roads, interchanges, and rights-of-way. The city of Ft. Wayne would also be permitted to use the revenue for the demolition of commercial property. In addition, Evansville would be permitted to use the money to acquire, demolish, and renovate housing development property or for physical improvements or alterations of property that enhance the district's viability.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: Available from Legislative Services Agency.